

## County Finance 101: What is a “Fund Balance”?

The meaning of “*Fund Balance*” depends on the context in which that term is used: i.e., whether the term is referenced within the County’s Audit or the County’s Budget. The Budget and the Audit are prepared and utilized for very different purposes, and citizens may find it difficult to interpret and reconcile the information presented in the two.

“**Audit**”: following conclusion of a fiscal year, the County is required to obtain an audit of all of its various accounts and financial records. The purpose of the audit is to provide reasonable assurance that local government’s financial statements fairly represent the financial position, results of operations, and cash flows in conformity with generally accepted accounting principles. The audit is conducted and presented in a format consistent with government auditing standards issued by the Comptroller General of the United States and additional specifications for audits of counties, cities and towns issued by the Commonwealth of Virginia.

“**Fund Balance**” as the term is used in the County’s *Audit* (Balance Sheet) represents the **difference between assets and liabilities** as of June 30 of a particular fiscal year. “*Assets*” include cash on hand, but also include outstanding receivables, such as taxes and penalties due and owing to the County, and money remaining due to the County from federal or state sources. Liabilities include money due and owing by the County to outside sources, including notes and other accounts payable, grant money received in advance of expenditures being incurred, and local taxes paid prior to the applicable due-date.

“**Budget**”: prior to the commencement of each fiscal year, the County prepares and approves an operating Budget for informative and fiscal planning purposes. The Budget is a plan of *contemplated* expenditures and *estimated* revenues and borrowing for the upcoming fiscal year and to a significant extent the format of the budget is governed by state law (see Virginia Code 15.2-2504).

“**Accumulated Fund Balance**” as that term is used in the County’s *Budget* (at the end of the section detailing anticipated revenues) represents the County’s **projection of cash** that may be available in the County’s general operating fund to cover potential expenses, but which has not been designated or reserved within the Budget for a specific purpose. (Other assets and liabilities included within the calculation of “Fund Balance” in the Audit appear in the Budget document in various locations as potential revenues or anticipated expenditures.) For FY2008, the audited cash on hand (\$2,832,709) amounts to 7% of total expenditures for the audit year. *To give an analogy, this is the equivalent of a \$140 cash “buffer” maintained in an individual’s household checking account, based on monthly checking expenditures of \$2,000.*

The following chart compares the audited Fund Balance and the County’s audited “Cash” (i.e., one component of the audited Fund Balance) as of June 30 in each of the past six fiscal years:

